

JIC Investment Activities December 2023

December 20, 2023
Japan Investment Corporation

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1. JIC Activities (Outline)

- Since 2019, when the new management team took over, JIC has established two JIC affiliated investment subsidiaries under its umbrella. Additionally, JIC began formulating a strategy for investment in private funds, not affiliated with JIC, in September 2020.
- In formulating the strategy for investment in private funds, the JIC Board of Directors deliberated and determined specific target investment areas and stages (investment sub-themes) guided by the four priority areas outlined in JIC's investment criteria (ministerial ordinance), following thorough research and analysis.
- JIC subsequently shares its insights and findings with METI before proceeding with investments in individual private funds.

	Policy Initiatives	Actions	Review
Private funds (not affiliated with JIC)	• Four priority areas and areas where equity funding gap exist.	• Select funds from prospective funds that align with one of ten investment sub-themes.	• Committed ¥168.9 Bn to 34 private funds that align with investment sub-themes.
	• Increase the number of GPs capable of attracting commitments from domestic and foreign institutional investors in the future.	• Require GPs to cure existing flaws, if any, to be qualified, prior to JIC's commitment; i.e. governance (GP ownership), conflict of interest (assuming concurrent positions/jobs aside from GP role, etc.), team composition, terms & conditions, etc. • After the commitment, monitor the GP's actions to further improve the team, including new hire.	• Invested in funds that are qualified. • Institutional investors regard the funds with JIC commitment as: ✓ Passed minimum screening criteria ✓ Need to monitor the GP's track record and experience to be further gained for those raising their 1 st to 3 rd funds.
	• Support GPs to launch their funds.	• Select GPs who shows potential to perform well even if they have limited track records as a team. • Support fund raising activities by emerging GPs, those having difficulty in raising their 1 st to 3 rd funds.	• Committed to 9 funds raising their first-time fund, 7 funds raising their second fund, and 6 funds raising their 3 rd fund.
JIC VGI	• Address equity funding gap in SUs in middle to growth stages.	• VGI Fund I and VGI Fund II Invest in startups raising Series B and later.	• VGI Fund I completed 47 deals over the two years, driven by the substantial funding needs of startups raising Series B and later. Subsequently, VGI Fund II was established and commenced operations in 2023. • VGI Fund II initiated investments in DT and LS sectors, leveraging a specialized team, and is actively evaluating potential deals.
	• Address equity funding gap in deep tech (DT) / life science (LS) SUs from their early stages.	• VGI Fund II invests in DT / LS startups raising Series A and later.	
	• Address equity funding gap in direct secondary trade / post-IPO startups' funding.	• Establish VGI Opportunity Fund and made the first investment.	
JIC Capital	• Initiatives not taken place in Japan; ✓ Help companies in a globally competitive industry to merge with others within their industry or across industries. ✓ Provide growth capital to create new industries.	• Concentrate on priority industries such as semiconductors, mobility, chemicals, materials, and healthcare, where Japan holds a competitive edge and where industry consolidation is highly probable.	• Announced 4 deals. • One of the deal was completed in October 2023.

Fund portfolio status [as of Jun. 30, 2023] (total for private and umbrella funds)

- The performance of the fund portfolio since its inception is as follows.
- VCs: Aggregated by the vintage year of each fund. Funds that commenced their investments earlier have already recorded unrealized capital gains.
- PEs: JICC incurred drawdowns as it had not yet commenced its investments as of the end of June and its performance remained in the negative zone of the "J-Curve".

Overview of fund investments (with VC performance by vintage)

(as of Jun. 30, 2023)

(JPY)

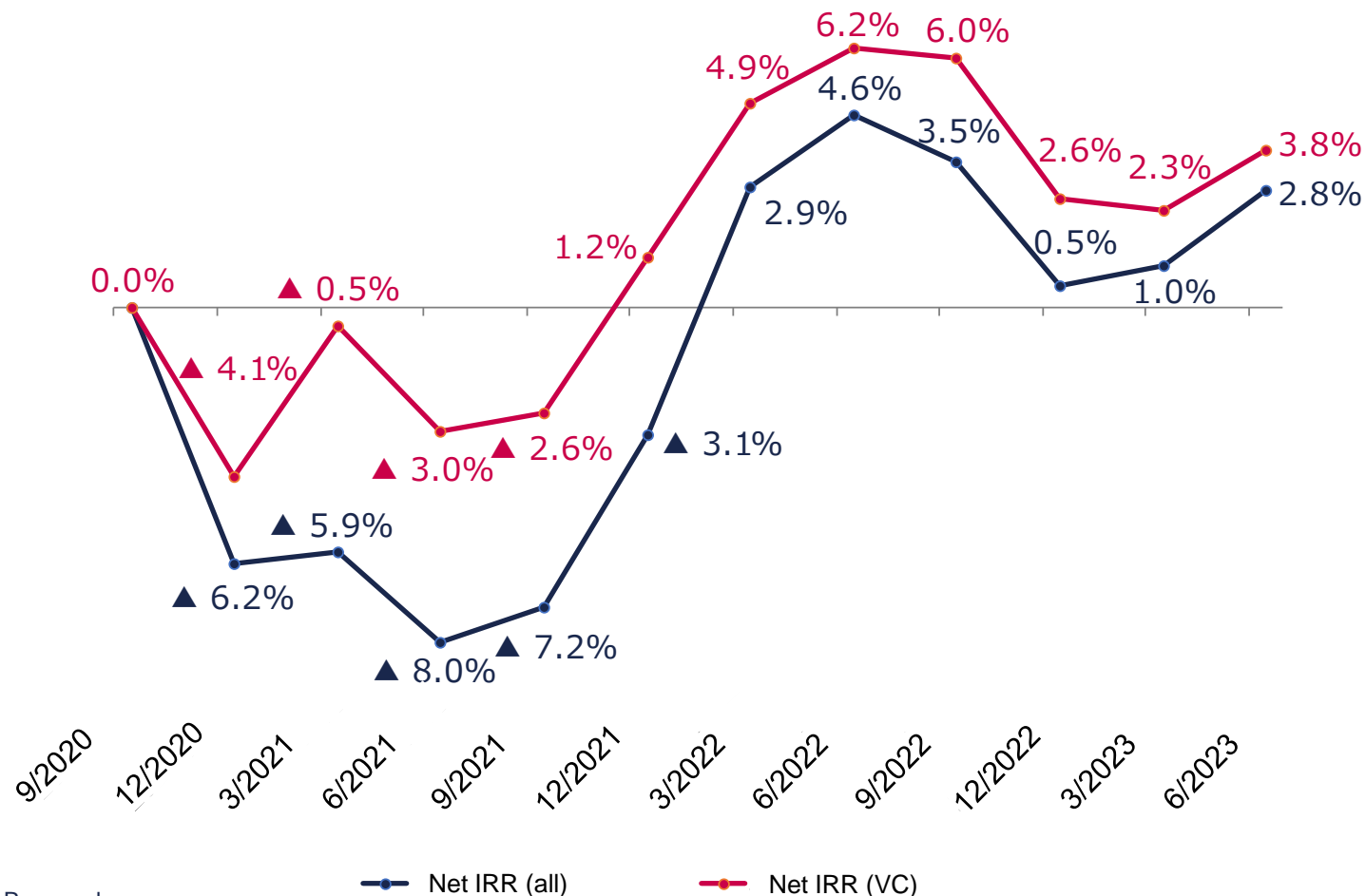
					Multiplier (vs. paid-in amount)			
	Investment Decisions	Amount of investment (commitment)	Paid-in Amount	Progress Rate	Dividend (DPI)	NAV (RVPI)	Dividend + NAV (TVPI)	Net IRR
Total	33	1,574.1B	163.2B	10.4%	0.00x	1.04x	1.04x	2.8%
VC	29	440.1B	141.8B	32.2%	0.00x	1.05x	1.05x	3.8%
(~2019)	5	17.7B	16.1B	90.6%	0.02x	1.39x	1.41x	25.3%
(2020)	3	125.0B	82.4B	65.9%	0.00x	1.03x	1.03x	1.7%
(2021)	5	29.4B	15.8B	53.9%	0.00x	0.99x	0.99x	▲ 0.8%
(2022)	14	65.0B	17.2B	26.4%	0.00x	0.95x	0.95x	▲ 7.7%
(2023)	2	203.0B	10.3B	5.1%	0.00x	0.96x	0.96x	▲ 3.7%
PE	4	1,134.0B	21.4B	1.9%	0.00x	0.94x	0.94x	▲ 6.0%

Note: Reported values by funds are adjusted by JIC to reflect fair value method or equivalent.

(Reference) Net IRR changes since set up

- Overall, a positive result was recorded in the fiscal year ended March 31, 2022, primarily attributed to valuation gains, particularly from funds that commenced their investments earlier .
- However, it is premature to evaluate investment results as only two years and nine months have elapsed since the commencement of investments.

Changes in Net IRR

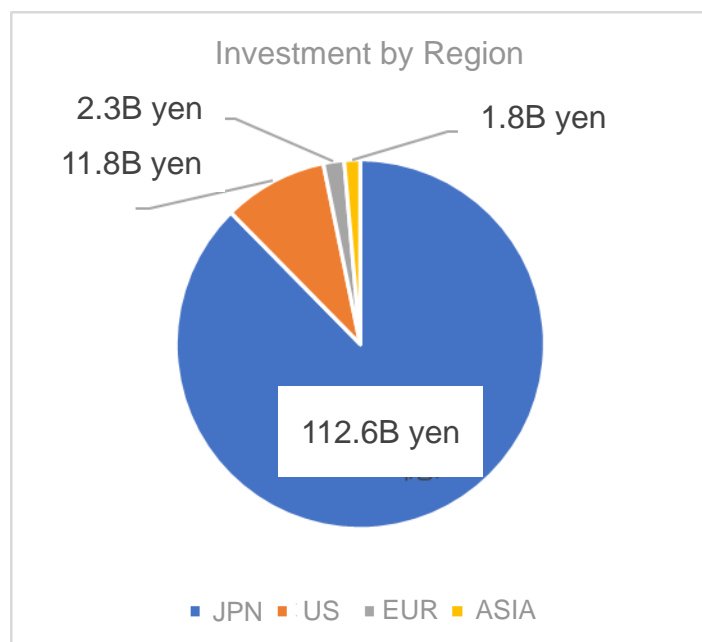


- JIC's total stake in portfolio funds amounts to JPY128.5 billion. Of this total, JPY112.6 billion, or 88%, is invested in Japan.
- As of June 30, 2023, the international exposure include fund investments made within the context of Open Innovation, one of the Investment Sub-Themes, or International Business Creation based on Japanese drug discovery seeds.

- **Domestic investments:** JPY112.4 billion, 441 companies.

By stage

- **By number of deals**, the largest is Seed stage SUs with 243 of startups (JIC share: JPY9.05 billion, JIC invested funds: JPY33.16 billion).
- **By amount**, the largest is Later stage SUs with JPY52.46 billion yen, mainly invested through JIC VGI.



Investment Region Japan (Unit: JPY100 Million)

Initial Investment Stage	No.	JIC Share	Total JIC Invested Funds
Seed	243	90.5	331.6
Early	110	141.0	377.9
Middle	56	232.3	441.1
Later	27	524.6	563.6
Startups subtotal	436	988.4	1,714.2
Buyout: Midsize	5	137.5	190.0
Total	441	1,126.0	1,904.2

- * The figure shown in the table above is calculated for JIC investee funds :
- Total JIC Invested Funds represents sum of the amount invested by each fund.
 - JIC Share is calculated based on JIC ownership percentage in each funds.

2. JIC Investments in Private Funds

1. Overview on selection process of private funds

JIC Investment Focus Area

Creation of New
Businesses for Society
5.0

Creation of
Unicorn Startups

Leveraging Promising
Untapped Regional
Technologies

Business Consolidation
across Industries and
Organizations

+ Complement
Private Sector

Policy Objectives and Areas Lacking Private Sector Funding

Investment Sub-Themes

Deep Tech

Seed/Pre-Seed

Industry-Academia

Carve-Out/
Roll-Up

Life Science

Growth

Go Global

•

Climate
Tech

Secondary

Open
Innovation

•

Investment Evaluation

— : Type of funds JIC will not support

Early stage IT focus

Overseas
investment without
Japanese benefit

Managers
capable of
attracting
domestic and
foreign
institutional
funds in
future

Quantitative

Managers who can expect a return

Qualitative

Managers without
fund management conflicts

Same-boat investment by members
and appropriate incentive design

Managers who are expected
to be permanent

Middle office structure
required of a fiduciary

Significantly inferior
investment performance and
experience

Concurrent work that conflicts
with fund management

Concurrent positions
of managers

Integrity issues

Investment strategies not
aligning with market
environment, investment
opportunities

Contract terms and conditions
significantly deviating from
ILPA model contract, fund
governance clauses

Captive funds such as CVC

Fund Selection Perspectives: Differences between JIC and typical Institutional Investors/Gatekeepers

	Typical institutional investors and gatekeepers	JIC
Quantitative	<ul style="list-style-type: none"> Select managers with proven superior track records relative to domestic and foreign PE and VC firms. Require 3x net or 2x track records + story. 	<ul style="list-style-type: none"> Select managers who can be expected to generate returns.
Qualitative	<ul style="list-style-type: none"> Majority of investors exclude GPs raising fund I and fund II from their target scope. They evaluate GPs on “as is” basis. 	<ul style="list-style-type: none"> Encourage managers to reengineer themselves to pursue better practice (to avoid conflict of interest, strengthen governance, expand teams, etc.), to be qualified, prior to JIC commitment.

2. GPs managing funds invested by JIC



株式会社産業革新投資機構

Sub-theme

GPs in which JIC invests

Deep Tech



Life Science



Climate Tech



Seed/Pre-Seed



Growth



Secondary



Industry-Academia Collaboration



Go Global



Open Innovation



Carve-Out Roll-Up



3. Foster GPs capable of raising fund from institutional investors – ① Pre-investment negotiation



- JIC is different from private LPs as it does not consider original GP structure & proposal, etc. as given.
- JIC takes time to negotiate with GPs to agree on the goal for the GPs to achieve institutional-quality managers in the future. JIC invested in such GPs after they had followed JIC's advice and cure flaws.

Examples	
GP Strengths and Investment Strategies	<ul style="list-style-type: none"> • Discuss investment strategy with a GP prior to the offering and provide advice on strengths and weaknesses relative to other GPs based on the GP's experience and track record so that the GP can polish its strategy. • In cases where the GP manages other funds, propose a relevant strategy to mitigate potential conflict issues.
GP ownership structure	<ul style="list-style-type: none"> • Transfer ownership of the GP company to the team through a MBO from the parent company. • When transfer is not feasible, establish an LLP and designate it as the GP of the fund in the limited partnership agreement. Additionally, structure the LLP with majority ownership held by the team and minority ownership by the parent company.
Same-boat investment by key member	<ul style="list-style-type: none"> • In the scenario of a previously captive fund, alongside the change in GP ownership, implement same-boat investment by team members into the fund and initiate sharing the GP carry with the team.
Duty to devote to fund management	<ul style="list-style-type: none"> • In the case of a fund management company operating multiple funds, revise the management structure to allocate a dedicated team to manage each fund without any concurrent responsibility for managing other funds. • Hire a new, full-time team member for the fund from outside of the company.
Appropriate Key-man clause and committee members	<ul style="list-style-type: none"> • Replace key members or IC members who are deemed inappropriate due to lack of experience, conflicting concurrent positions, excessive risk-taking tendencies, etc., with more suitable individuals.
Priority in investment opportunity allocation	<ul style="list-style-type: none"> • Introduce "First Look" rights to the fund when a manager makes angel investments with personal funds. • Prohibit the cherry-picking opportunity for a manager who was previously permitted to co-invest with the fund on a deal-by-deal basis. Now, the manager must participate in co-investments in all deals alongside the fund, or they must transition to become a LP of the fund. This policy ensures no conflict of interest with LPs.
Securing human resources	<ul style="list-style-type: none"> • Senior positions must be filled before any commitment by JIC Committee (JIC) is made. • Strengthen the middle office staff members and recruit young talent: JIC commitments are often made in two rounds; the latter commitments will be at the final close and it is contingent upon the completion of such hiring.
Partnership agreement	<ul style="list-style-type: none"> • Improve LP economic conditions (mainly carried interest %) (Global standard is 20%) • Correct terms significant deviated from International Limited Partner Association (ILPA) standards, the benchmark used by global LPs (e.g., LP governance issues) • Revise the mechanism of management fee distribution such that team members receive their share of income from the management company rather than through direct distribution from the fund to each individual team member, as previously practiced.
Fund size	<ul style="list-style-type: none"> • Evaluate and assess the appropriate size for a fund taking into account the capacity of the GP. Any fund exceeding the GP's capacity may lead to a loosening of investment discipline. To prevent this scenario, JIC engages in negotiations with the GP to establish the maximum amount the GP is permitted to raise.

3. Foster GPs capable of raising funds from institutional investors – ② Post-investment communication

- Most GPs lack experience dealing with institutional investors and require guidance, particularly on matters related to LPs.
- As the fund expands, there is a need to increase the capacity of the middle office function.

Investment function

Provide feedback on the following:

- Provide feedback on the annual evaluation of the fund's status and the overall operation of the GP. (JIC conducts evaluations of funds and GPs in accordance with the Industrial Competitiveness Enhancement Act.)
- Provide advice on how to prepare Investment Committee meeting memos
- Offer guidance on conducting general meetings and advisory boards, drawing insights from funds in which institutional investors have made investments.
- Provide feedback on reporting to and communicating with LPs, including strategies for addressing negative events and managing their impact.

Middle / Back-office function

Before proceeding with an investment, the JIC Fund Management Office conducts due diligence on the fund's middle and back-office operational processes and human resources to gain insights into the GP's situation. If deemed necessary, feedback will be provided, and a condition for further commitment by the JIC will be attached: the hiring of additional personnel must be completed before the final close.

After investment, the following feedback is provided:

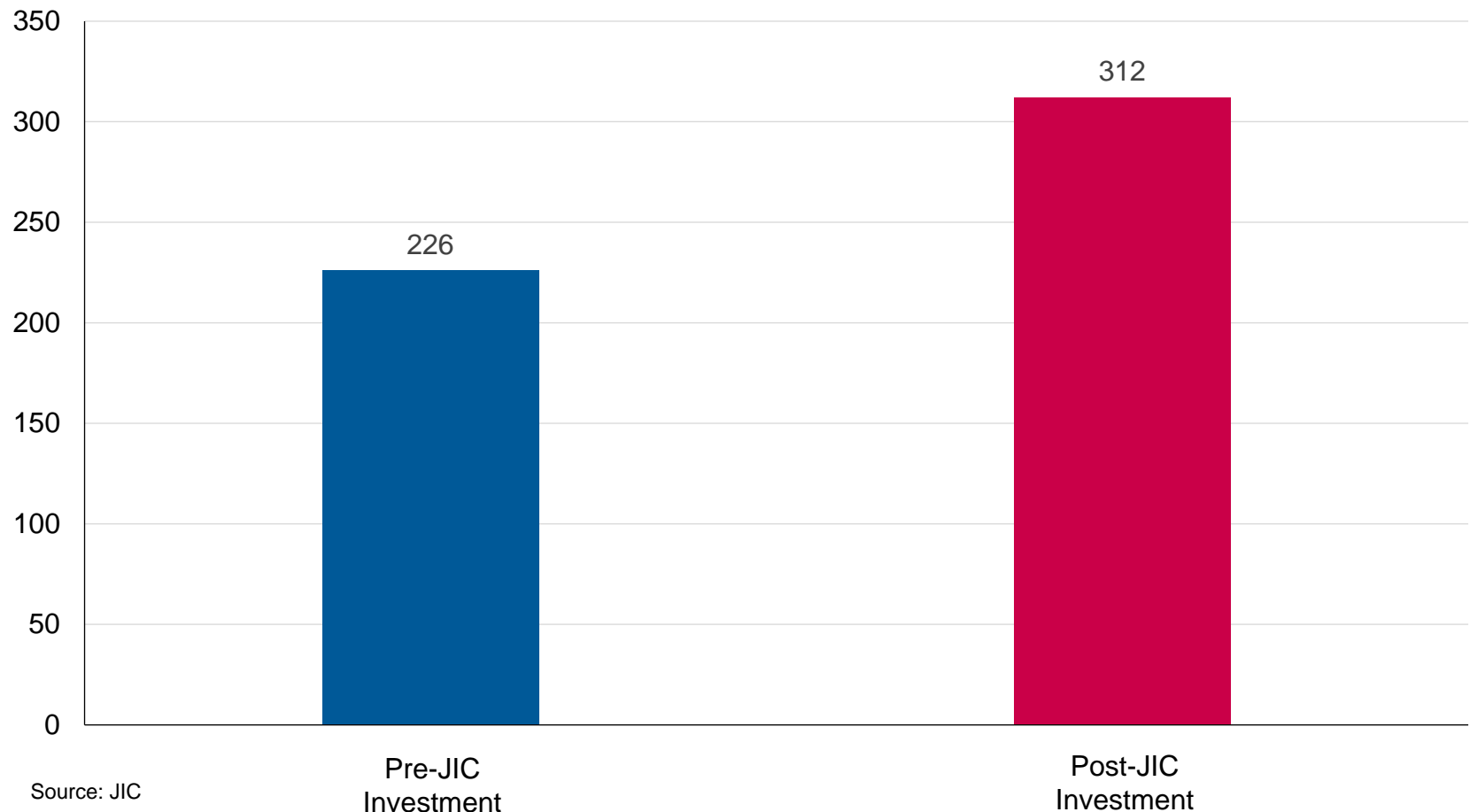
- Guidance on how to respond to clerical errors when they occur.
- Request the GP to take responsible action as a management issue, collaborating with the Fund Investment Office, if the clerical error is attributed to the system.
- Strive to enhance each GP's maturity by sharing best practices.

(Reference) GP human resource increase following JIC investment (as of Jun. 30, 2023)

- The headcount (*) of JIC's 19 major investee GPs has increased by 86 people, rising from 226 prior to JIC investment to the current level of 312.

*Number of personnel including middle/back office functions

Fund Headcount of JIC's 19 Major Portfolio Companies (The number personnel)



4. Fund launch support

- Investors typically commence evaluating investment opportunities from the third fund of a GP because the establishment of the third fund often aligns with the timing of initial investment results from the GP's first fund becoming apparent.
- However, if there are no realized returns recorded in the first fund, or if the fund is at a stage where its ability to generate returns remains uncertain, the initial evaluation timing may be deferred to the fourth fund of the GP or even later.
- To increase the number of GPs that can earn trust from institutional investors and secure commitments from them, it is crucial for JIC to support these GPs until at least the time when they raise their third fund.

JIC investee No. 1 fund



JIC investee No. 2 fund



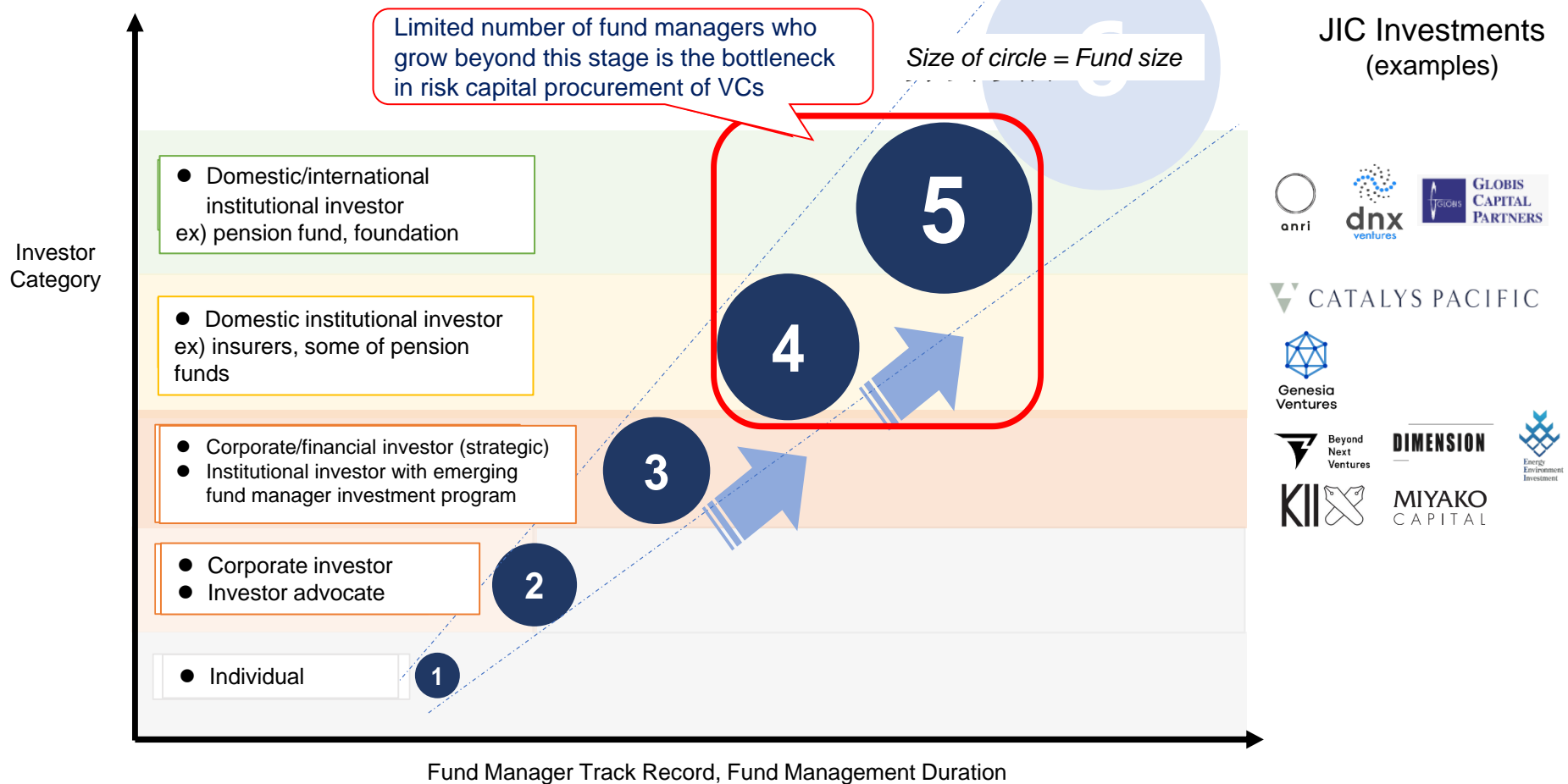
JIC investee No. 3 fund



(Reference) VC growth stages and challenges



- Compared to the United States and Europe, Japanese funds, particularly VC funds, seldom attract investments from institutional investors such as pension funds. This presents a significant constraint on their capacity to raise capital to be deployed to assist investee's medium- to long-term growth.
- The current number of GPs with capital from multiple domestic and international institutional investors has already surpassed 10, marking an improvement from the status where only a handful of GPs were able to raise funds from those investors in 2019, when JIC started its activity.



5. Complement private sector: considerations for private LPs

- Institutional LP investors are likely to watch following risk factors that may potentially arise from JIC's market intervention:
 1. Does the inflow of capital, enhanced by JIC's intervention, into the startup ecosystem exceed the number of startup investment opportunities?
 2. Does the size of the fund supported by JIC exceed the capacity of the GP?
 3. JIC should reserve high-performing GPs, those expected to generate high returns, for private LPs.
 4. Does the influx of funds managed by inexperienced GPs supported by JIC erode market discipline?



- When setting Investment Sub-Themes (investment policy), identify sectors/stages where private capital is scarce. Then, support VCs focusing on these sectors/stages.

- JIC selects VCs that can be expected to generate returns.

- JIC evaluates and determines the appropriate fund size for a GP on each occasion.

- JIC intends to commit up to half the size of a fund at maximum, but it will initially constrain the commitment size to be relatively small. Subsequently, at the final close, it will reassess and return to the GP to determine the final commitment size. In this determination process, JIC will evaluate the status of the fund's offering, specifically the fundraising progress from private investors.
- This approach prioritizes private LPs seeking to invest in the fund over JIC.

6. Support ecosystem to grow

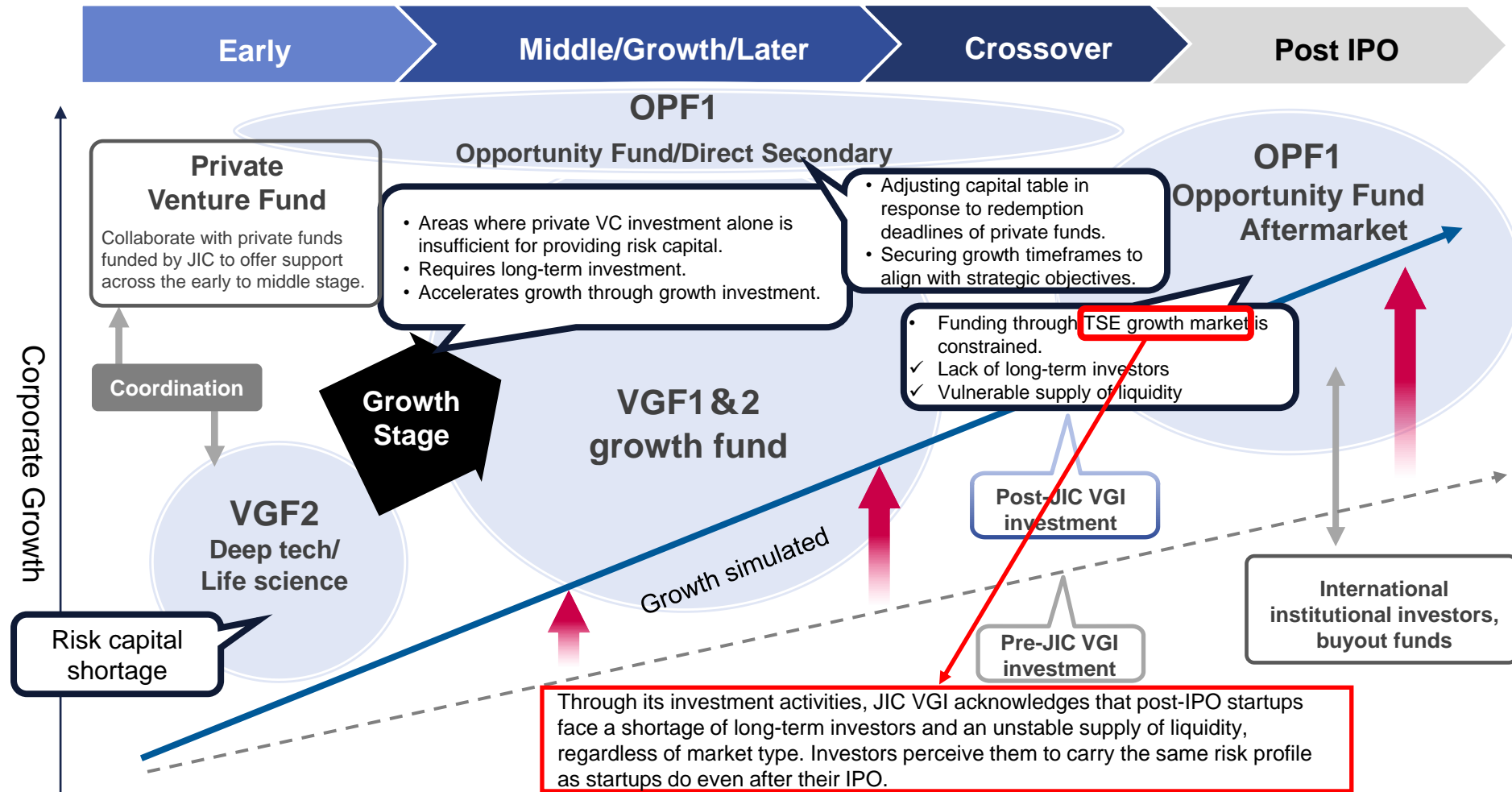
- JIC has contributed to the growth of the startup ecosystem through limited partner (LP) investments and other activities.

Expanding the manager base	<ul style="list-style-type: none">Support the launch of the first through third funds of a GP and complement private funding.
Manager training	<ul style="list-style-type: none">Engage with GPs to ensure sustainable fund management at the time of commitment and thereafter.
Risk capital circulation	<ul style="list-style-type: none">Identify sectors* lacking private funding *Seed, Pre-Seed, Growth, Post IPO, SecondaryAvoid overfunding
Go Global	<ul style="list-style-type: none">Funding VCs with global networksLP investments in global VCs to promote their interaction with Japanese GPs and Sus
Research report	<ul style="list-style-type: none">Publish a review of the startup finance market in both Japanese and English.Publish a report detailing the support for ecosystem growth provided by overseas public investment institutions, with a key focus on European case studies.Produce a report on the support available for deep tech startups

3. Investment Activity by JIC Group Funds

- JIC VGI, a fund dedicated to addressing market challenges for startups, remains committed to fostering the emergence of unicorns by offering comprehensive support from the early to growth stages and beyond, including in the aftermarket.

JIC VGI Fund Cluster ~Growth Path~



Status of investments by type

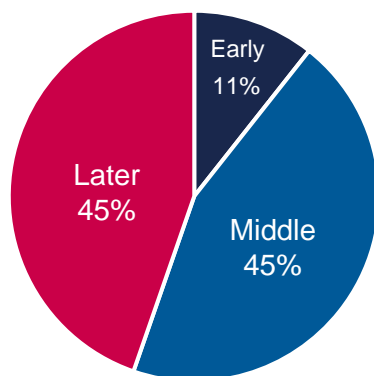
Unit: JPY100 Million

Ref. Date	Investment No.	Investment Value	Recovery	NAV*	Accumulated P/L	Ratio
Jun. 30, 2023	47	753.4	0.1	797.1	43.8	1.06
Mar. 31, 2023	47	753.4	0.1	775.5	22.2	1.03
Mar. 31, 2022	36	508.4	0.0	517.4	8.9	1.02

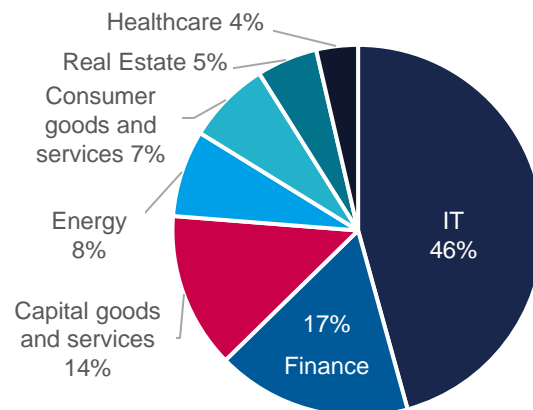
*NAV reflects the fair value evaluation of the same investment

Distribution Status

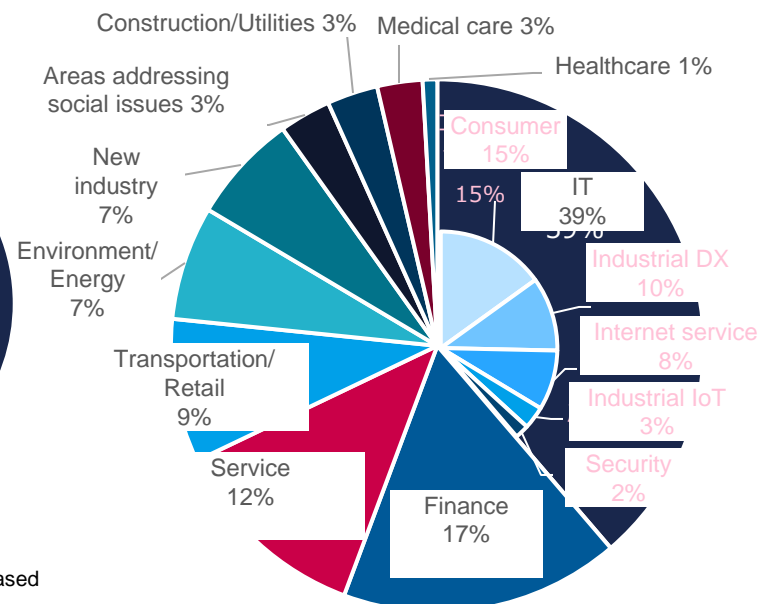
Initial Investment Stage



Industry



Classification(*)



Note: Initial Investment Stage is based on the number of investments; Industry and Classification are based on the NAV of each investment

(*) Industry segment in which the portfolio company is primarily active (i.e., the industry in which the investment will have a transformational impact)

Status of investments by type

Unit: JPY100 Million

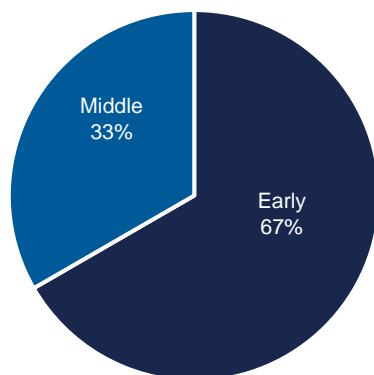
Ref. Date	Investment No.	Investment Value	Recovery	NAV*	Accumulated P/L	Ratio
Jun. 30, 2023	9	44.4	0.0	44.8	0.3	1.01
Mar. 31, 2023	2	6.3	0.0	6.3	▲ 0.0	1.00

*NAV reflects the fair value evaluation of the same investment

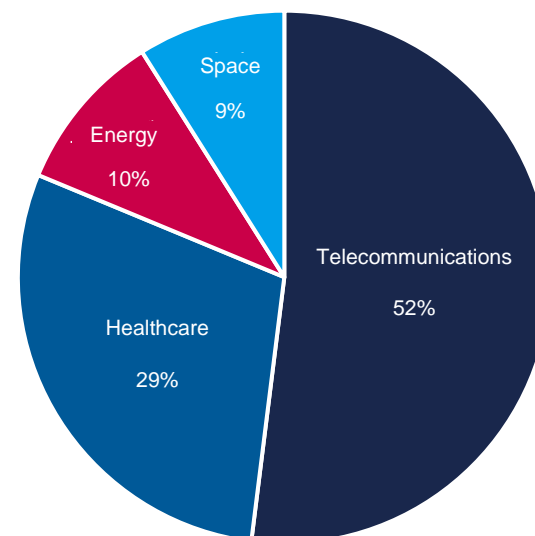
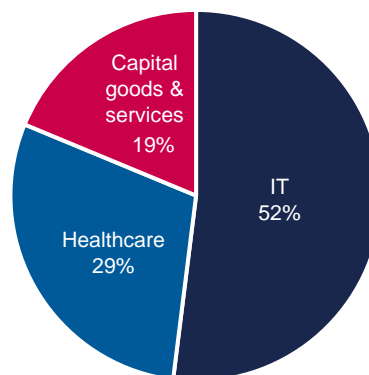
Distribution Status

Classification(*)

Initial Investment Stage



Industry

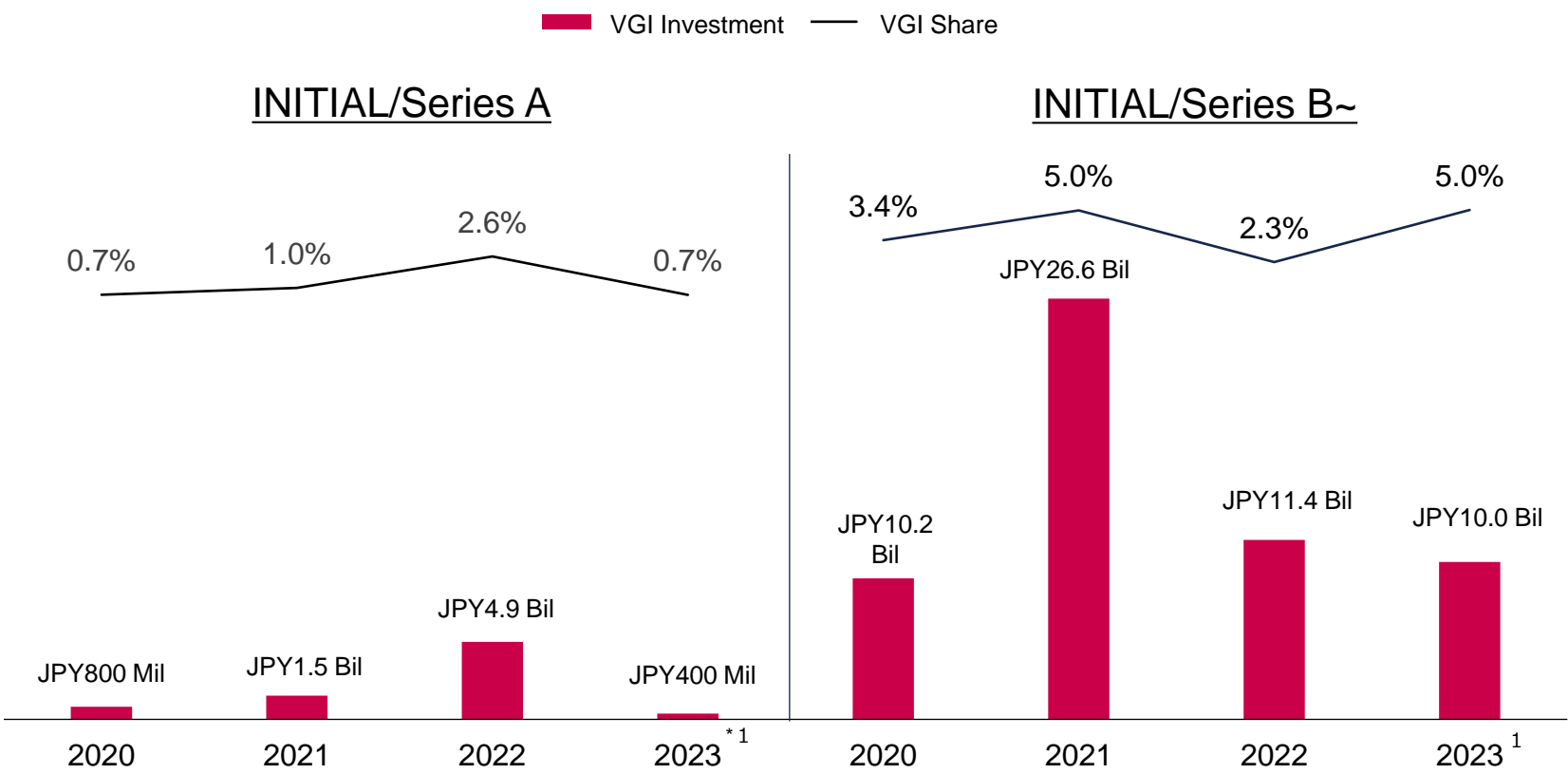


Note: Initial Investment Stage is based on the number of investments; Industry and Classification are based on the NAV of each investment

(*) Industry segment in which the portfolio company is primarily active (i.e., the industry in which the investment will have a transformational impact)

- VGI’s investments in SU after Series B constitute approximately 5% of the market. As a complement to private investment, VGI plays a role in supporting SUs experiencing difficulties in fundraising within the growth market.

VGI Investments by Initial Series*2



*1: For 2023, results are from January to the end of June.
*2: To compare relative to the overall market, only investments by VGI included in INITIAL database were compiled and presented (the following VGI investees have been excluded: TeraWatt Technology Inc, Kyoto Fusioneering, Nyle, wevna, OpenStreet, GITAI Japan, and ICHX TECH Pte). VGI investments that have not been allocated an Initial Series (OPN HD, Anymind) have also been excluded.

2. JICC investment activities

- Four deals been announced to date.
- JICC will make investments to facilitate industry consolidation and foster the creation of new industries, focusing on five key areas: semiconductors, mobility, chemicals, materials, and healthcare.

Area	Target Company	Status
Mobility	Hitachi Astemo	Completed in October 2023.
Materials	Integration of Toyo Aluminium and UACJ Foil	The merger approval process is progressing with both domestic and international antitrust authorities.
Chemicals/Semiconductors	JSR	
Semiconductors	Shinko Electric Industries	

Completion of investment in Hitachi Astemo, Ltd.

Completed	October 16, 2023
Objectives	Following the business integration of Hitachi Automotive Systems, Keihin Corporation, Showa Corporation, and Nisshin Kogyo Co., Hitachi Astemo has built a position as a global mega-supplier of competitive mobility solutions in the CASE area by combining its strengths as a supplier and leveraging its relationships with shareholders, Hitachi, Ltd. and Honda Motor Co. With the automotive and motorcycle industries undergoing a major transformation, Hitachi Astemo aims to achieve sustainable growth and solidify its position as a global mega-supplier by accelerating investment in advanced fields such as electrification, advanced driver assistance systems/automatic driving, advanced chassis, and next-generation motorcycles, while leveraging its competitive software development capabilities. To achieve this objective, JICC, as a new joint partner, will support Hitachi Astemo in achieving further growth by utilizing JICC’s expertise in investments including in the automotive industry, as well as its knowledge and information network, with a view to achieving an IPO.



4. JIC Role / Current Market Perceptions & Challenges

1. JIC role and startup ecosystem challenges



Role	Current Situation	Challenge
Risk capital supply (overall market)	<ul style="list-style-type: none"> Compared to its GDP, Japan has a relatively small startup funding market of JPY 1 trillion per year and VC offerings of JPY 500 billion. Inflows from institutional investors are anticipated, but the overall supply of risk capital remains insufficient. It takes time for attractive startups to emerge and for venture capital firms to establish trust with both domestic and international <p>Key points:</p> <ul style="list-style-type: none"> Market growth can not be sustained without profitable investment in SUs. Excessive valuation and poor-quality funding for SUs are not sustainable practices. 	<ul style="list-style-type: none"> Insufficient supply of large growth SUs (investee capacity) The number and size of VCs capable of attracting commitments from institutional investors are insufficient.
Risk capital supply (sectors)	<ul style="list-style-type: none"> Private funding, particularly in sectors requiring long-term investments such as deep tech, life science, and climate tech, is inadequate. Investment funds for growth-stage, secondary, and post-IPO companies are insufficient due to the limited number of private funding providers. 	<ul style="list-style-type: none"> Raising private capital continues to be challenging in areas that require long-term or large-scale commitments with uncertain exit strategies. Funding needs of Post-IPO SUs
Supporting Emerging GPs in their fund raising efforts	<ul style="list-style-type: none"> Emerging general partners (GPs) face challenges in securing commitments from private limited partners (LPs) by attracting their interest prior to raising their third funds, as the timing coincides with the initial investment results from the GP's first fund becoming apparent. 	<ul style="list-style-type: none"> VCs without track records continue to struggle in attracting private investors
Foster GPs capable of attracting commitments from domestic and foreign institutional investors	<ul style="list-style-type: none"> Historically, GPs have predominantly secured the majority of their commitments from corporations and financial institutions with strategic intent. Due to limited contact with institutional investors, many GPs lack institutional-quality investment strategies, conflict management capabilities, and strong LP relationships. Currently, the number of GPs entrusted with funding from both domestic and foreign institutional investors has exceeded 10. 	<ul style="list-style-type: none"> Private LPs are not motivated to train GPs. Few LPs exercise discipline towards GPs. <ul style="list-style-type: none"> ✓ Professional LPs are not investing in domestic VCs. ✓ FOFs do not have bargaining power against GPs as few investment opportunity is available to the FOFs. ✓ LPs with small commitment has limited influence over GPs.
Ecosystem support functions	<ul style="list-style-type: none"> Both SUs and VCs have limited international touchpoints, making it difficult for startups to establish themselves as international players. Japanese institutional investors are indeed investing in international VCs; however, they are not encouraging these VCs to increase their exposure to Japanese SUs. GPs have a tendency to disregard the voices of LPs urging them to change their investment strategies. 	<ul style="list-style-type: none"> International GPs do not communicate with Japanese GPs/SUs frequently. International GPs do not invest in Japanese SUs . Japanese entrepreneurs rarely participate in international acceleration programs.

2. JIC role and challenges in supporting industry consolidation and creation of new industries

Role	Current Situation	Challenges
Industry restructuring support	<ul style="list-style-type: none"> Japan has fewer M&As relative to its GDP compared with its peers. Industrial consolidation across organizations and industries is also relatively inactive. Even in industries where Japan maintains a competitive edge, individual businesses are often fragmented and retained as non-core subsidiaries within conglomerates. This situation raises concerns that Japan may be at a disadvantage in securing resources for R&D, Capex, and talent acquisition when competing with global peers that have advanced in industry consolidation. Despite the presence of buyout funds in Japan for 25 years, only a few dozen cases, including those involving small and medium-sized deals, have resulted in industry consolidation through roll-ups. Buyout funds have gained support from LPs by executing business succession deals and carve-out deals using LBO schemes and generate investment return for LPs without assuming significant business risks. Consequently, most buyout funds lack the incentive to actively promote industry consolidation. 	<ul style="list-style-type: none"> Increase the number of corporations driving industry consolidation. Increase the number of private funds working on industry consolidation. Enhancing JICC's investment activities.
Growth investment to support the creation of new industries by corporations	<ul style="list-style-type: none"> In Europe, a number of funds specialize in growth investments in corporations, not growth investment in SUs. However, in Japan, there is a lack of prominent funds in this area. Even in general buyout deals, there is a tendency for GPs to avoid R&D and Capex heavy deals as these deals may not yield quick return In the 25-year history of buyouts in Japan, no GP has focused on growth investments. While some funds have attempted to raise capital with a growth-centered strategy, they have faced challenges in garnering support from LPs and have struggled to establish themselves firmly in the market. 	<ul style="list-style-type: none"> Increase variety of investment strategy employed by private funds that invest in Japanese corporations. Attracting global players to Japan Enhancing JICC's investment activities

Continue working on investment sub-themes

Consider new initiatives with the premise of extending the dissolution deadline.

Ecosystem Support

- Provide risk capital to areas that address policy issues and lack private funding
- Explore new initiatives within the focus area to address emerging policy issues and market failures
- Support long-duration funds that address GX issues, among others.
- Investment to address issues involved listed companies.
- Support GPs to launch their 1st and 2nd funds.
- Improve VC operations
- Promote diversity, equity, and inclusion (DE&I) among VCs and SUs.
- Hire staffs dedicated to ecosystem support including Go Global, best practice sharing, etc.

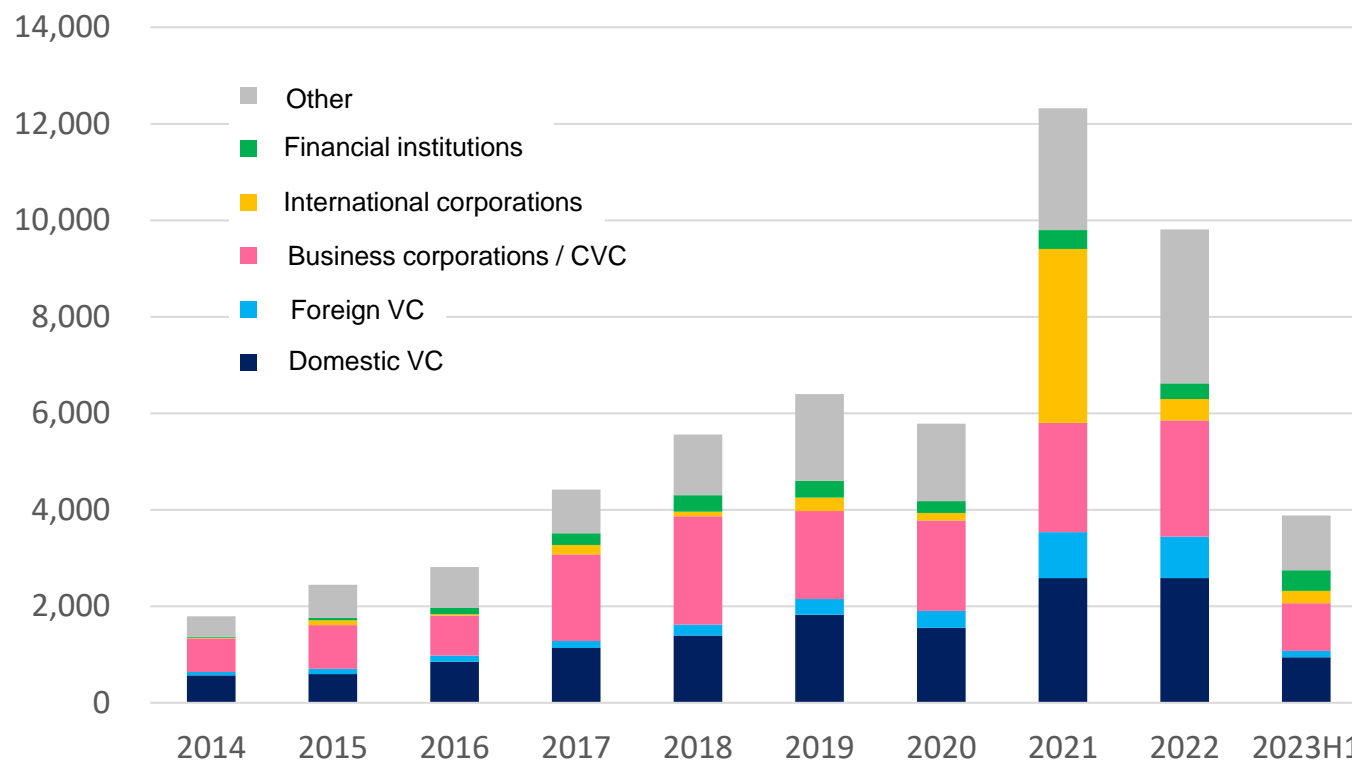
Reference

Start-up investment trends in Japan

- Investment in domestic startups has expanded 10x over the past 10 years to around JPY1 trillion per year
- Throughout this period, the surge in investment has been propelled by startups and VC fund investments, particularly for open innovation initiatives pursued by operating companies.
- Keidanren and the government's "Five-Year Plan for Startup Development" targets the investment of JPY10 trillion per year by FY2027; all parties are expected to work toward creating the next-generation of growth companies

Investments in Japan Startups by Investor Type

Unit: 100M yen



Note "Foreign corporations" for 2021 includes PayPal acquisition of Paldy for JPY300 billion

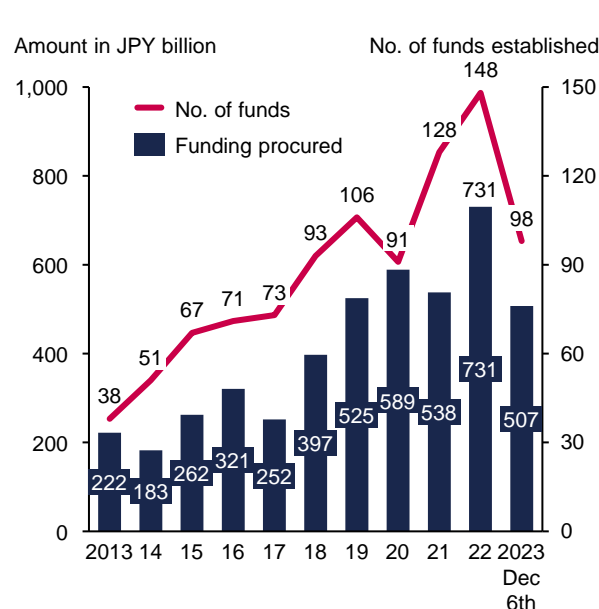
(C) JIC. All Rights Reserved.

Source: Compiled by JIC based on INITIAL "Japan Startup Finance H1 2023"

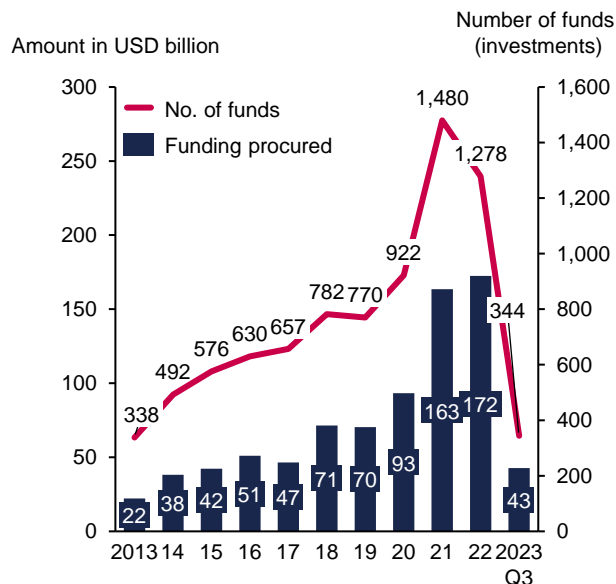
VC fundraising amounts

- Currently, the amount of fundraising by VC firms which are investing in domestic startups is about JPY500 billion per year; compared to US VCs, which are approximately 20 trillion in yen terms, Japan is still small scale
- Ten years ago, the annual amount of European VC fundraising was about JPY500 billion, but by 2021-22 it had expanded to JPY3 trillion; this growth in the European VC market may serve as a useful reference for Japan's VC market growth and expansion

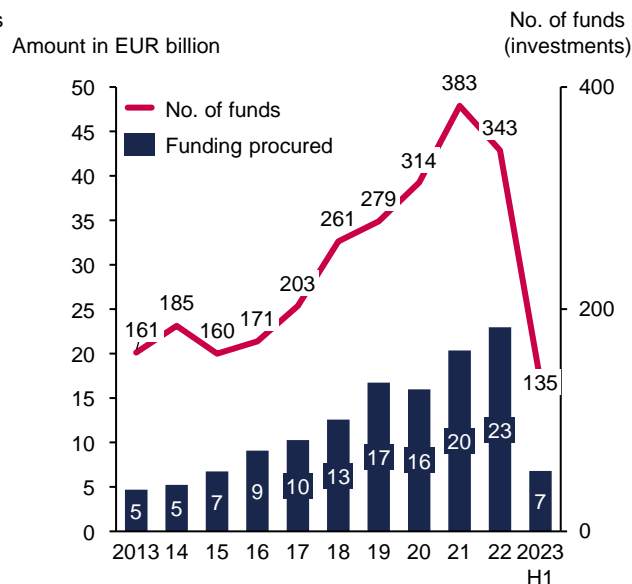
Japan (by year of launch)



U.S.



Europe



(Notes)

- JIC-related investment amounts included in Japan total 2022 VC fund procurement amounts were as follows:

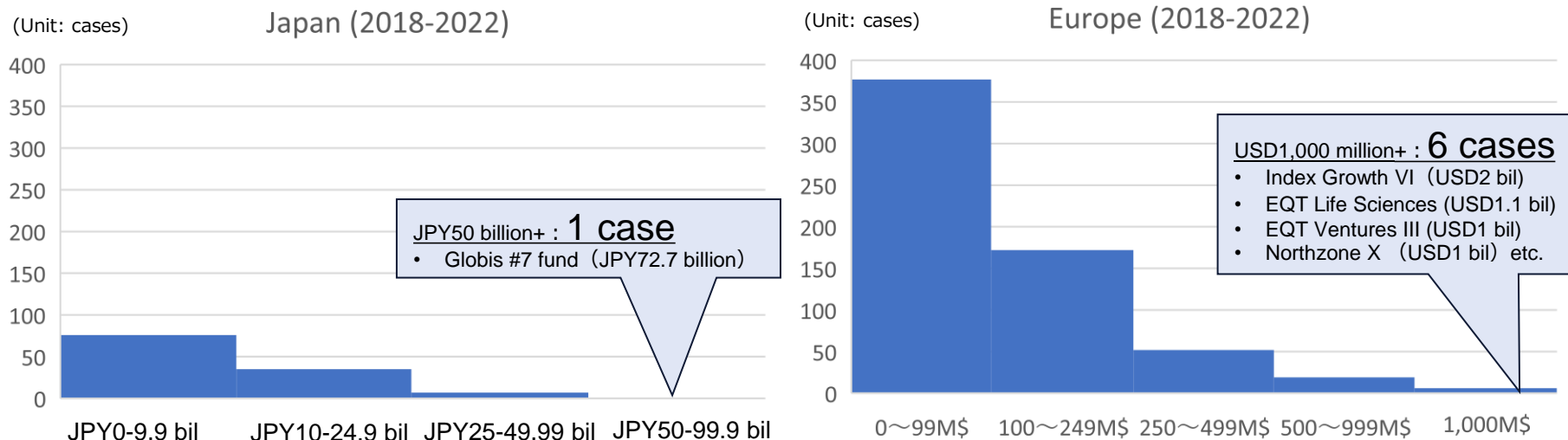
- VGI JPY200 billion
- Commitments by JIC to private domestic VCs : approx. JPY45 billion

The two of the above comprised 33% of the overall market on a simple calculation basis, or 13% if the committed amount is divided by 4 years, an assumed investment duration standard investment period.

Source: Compiled by JIC based on INITIAL, PitchBook, Investment Europe

- Only one Japanese VC has raised more than JPY50 billion in the past 5 years*
- In contrast, about 20 European VCs raised USD500 million or more, of which 6 VCs raised USD1 billion+
- Looking ahead, growing the fundraising of Japanese SUs to JPY10 trillion needs to be accompanied by the increase in the size of VCs supporting SUs as it was in Europe

Distribution of VC Fund Offerings



*The data for Japan VCs is based on the year of inception and includes the figures for funds that are still accepting investment. In contrast, the European VC data is based on the year of the final closing and reflects only funds that have completed their offerings (The figures of funds whose offering have been in progress will be included in the results for the year when the offering is completed).

USD500 million+ : 19 cases

- Index Ventures XI (USD900 mil)
- Highland Europe Growth IV (USD834 mil)
- Atomico V (USD820 mil)
- Holtzbrink VIII (USD629 mil)
- Dawn Capital V (USD621 mil)
- Balderton VIII (USD600 mil) etc.

- Institutional investors place significant value on **whether the manager of PE fund such as VC have achieved superior performance relative to rival funds launched around the same time**. The comparison is based on the “quartile performance by vintage” of the rival funds. **The level of the “top quartile” is the most important indicator**.
- Compared to investments in listed stocks, investments in PE funds are characterized by low liquidity over a long period of time and high costs, such as management and contingency fees. In return for bearing such risks and costs, institutional investors in PE funds **pursue “top class” rather than “median” performance**.

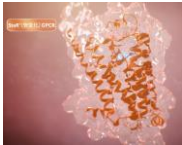
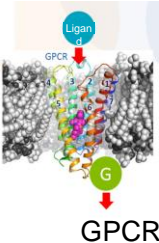
Net Return on Investment (by fund vintage)

US VC (figures from Preqin)		as of 2023/Q3	
	No. Funds	Top Q	Median
2010	25	3.43	1.74
2011	29	3.92	2.10
2012	19	2.79	2.45
2013	35	2.92	2.31
2014	37	3.39	2.60
2015	43	2.99	2.20
2016	57	3.27	2.23
2017	53	2.85	2.01
2018	63	2.42	1.75
2019	73	1.88	1.42
2020	72	1.44	1.16
2021	86	1.11	1.00
2022	68	0.99	0.91

Source: Compiled by JIC based on Preqin Private Capital Benchmarks

Sosei Group Corporation



Announced	December 15, 2023	Strengthen industry competitiveness or resolve social issues
Business outline	<ul style="list-style-type: none">Biotech firm with a drug discovery platform based on GPCR (G protein-coupled receptor) structural analysis technology (StaR/SBDD) <div><p>Stabilization (facilitates R&D) StaR</p><p>GPCR (G protein-coupled receptor) (Stabilized Receptor)</p></div> <ul style="list-style-type: none">In Japan, offer Pivlaz (indication: cerebral vasospasm), which was launched in April 2022, and filed for approval of Daridorexant (indication: insomnia) in October 2023	<ul style="list-style-type: none">Neurological, immunological, and metabolic diseases still have many unmet needs, and investment in the development of new drugs, including GPCR, is necessary to resolve these issuesIn particular, the neurological diseases schizophrenia and dementia have particularly high unmet needs in terms of efficacy and side effects, even with current pharmaceuticals, and are seen as investments that will contribute to realizing a healthy and long-lived society
Financing scheme	<ul style="list-style-type: none">Issue of (new) euro-yen CBs (approx. JPY32 billion)Purchase of (existing) euro-yen CBs (approx. JPY31.3 billion)Issue of new shares overseas (approx. JPY2.1 billion)<u>Third-party allocation of shares to JIC VGI/OPF1 (approx. JPY8 billion)</u>	Growth potential
		<ul style="list-style-type: none">The funds are planned to be used for (1) introducing developed drugs and other products, (2) development and sales of late-stage development drugs, and (3) enhancement of drug discovery functions, so investment in Sosei Group could contribute to advancing medical care in Japan
		Innovative
		<ul style="list-style-type: none">Drug discovery based on GPCR structure analysis is innovativeSuccessful GPCR-based drug discovery may be resulted in adoption worldwideDrugs discovered by Heptares may be distributed in Japan as innovative drugs in the future

Fund concept

- The fund's concept is to **both address market issues** and **secure returns**
- Approach is to capture market issues as they emerge, balance resolving issues and achieving investment returns and **develop market ecosystem**, leading to maximize further fund returns
- Not limit the investment strategy, but to respond flexibly when investment is needed in new sectors through leveraging the characteristics of the Opportunity Fund which addresses market issues

(Market issues)

- Undeveloped secondary market for VC/companies, etc. to trade their stakes in SUs
- Shortage of risk capital for essential and sustainable enhancement of corporate value post IPO

(Investment strategy)

① Direct secondary

- Secure time necessary for SUs' sufficient growth, and further push growth curve (support reorganization of capital policy via acquisition of existing shares from VCs and companies)

② Aftermarket

- Contribute to sustainable and dramatic growth of listed startups and stimulate inflow of risk capital from institutional investors (support capital provision through third-party allocations, convertible bonds, stock acquisition rights, etc.)

③ Investment to address other market issues

- Add to the guidelines with JIC approval

* Includes additional investment in VGF1 and VGF2 investees

Investment strategy

Fund size, duration, etc.

- Opportunity Fund size: JPY400 billion (GP: JIC VGI, LP: JIC)
 - Direct/secondary and aftermarket frameworks
 - Duration: 10 years

JICC: Planned commencement of tender offer for Shinko Electric Industries



株式会社産業革新投資機構

Announced December 12, 2023

Outline

- As society and economy are digitalized with the spread of 5G, increasing use of AI and IoT, and accelerating digital transformation (DX), etc., applications for semiconductors are expected to keep expanding, further increasing demand over the medium- to long-term, as well as the need for even higher functionality and performance.
- Responding this situation, JICC, together with DCP, Mitsui Chemicals and Hachijuni Investment, plans to make Shinko Electric a private entity in order to enable the company to promote initiatives that contribute to the enhancement of corporate value from a medium- to long-term perspective without being affected by short-term business performance. JICC will strongly support commercialization of the field of advanced semiconductor packaging, such as chiplet technology and photonic-electronic integration technology, based on the diverse semiconductor packaging technologies that Shinko Electric has cultivated.

Social impact

- Through privatization of Shinko Electric Industries which is considered to fulfill a central role in the development of advanced semiconductors in Japan, bring out growth potential of the company's businesses, and maintain and evolve its globally top-level technologies, which will be cornerstone of further industry development in Japan.
- By leveraging Shinko Electric's technological capabilities, make a significant contribution to the practical application of next-generation semiconductor technologies, such as optoelectronic fusion technology, ahead of other countries.

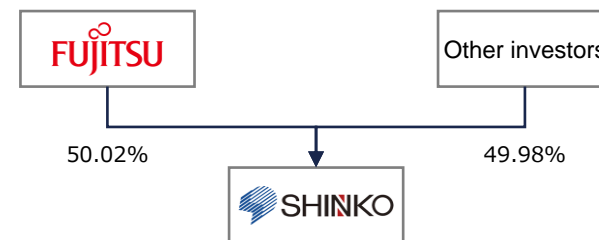
Needs/value provided

- Even amid unstable trends in the macro economy/semiconductor industry, a structure that will enable initiatives to improve corporate value with a medium- to long-term perspective, unaffected by short-term business performance is required.
- As the importance of developing technologies that anticipate semiconductor market needs and promptly making capital investments has been increasingly important, timely decision making which is necessary to respond to that will be possible through privatization.

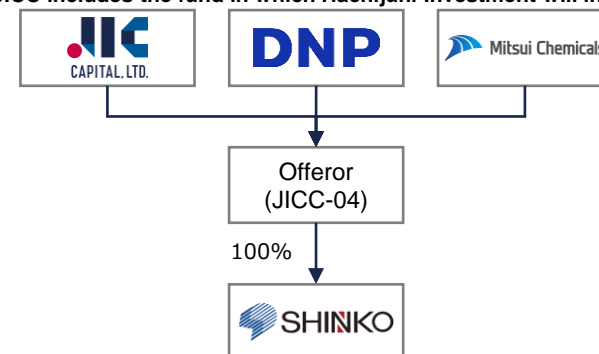
Growth potential/profitability

- The company is a leading player in the development, manufacturing, and sale of products utilizing a diverse range of semiconductor packaging technologies. It is anticipated to experience continued growth and enhanced profitability through the commercialization of semiconductor packaging technologies such as chiplet and photonic-electronic integration technology.

<Structure>



*JICC includes the fund in which Hachijuni Investment will invest



1. Conduct a public tender offer for all Shinko Electric Industries shares (excluding the stake held by Fujitsu) through an SPC
2. Following the close of the tender offer, conduct a squeeze out of minority shareholders in order for only Fujitsu, JICC and the offeror to be shareholders.
3. Shinko Electric Industries will conduct a buyback to acquire all shares held by Fujitsu in order for the offeror to take 100% ownership.